

State Notes

TOPICS OF LEGISLATIVE INTEREST

July/August 2007



Balancing the Fiscal Year 2006-07 State Budget and the Implications for the Fiscal Year 2007-08 State Budget

By Gary S. Olson, Director

During August 2006, the Michigan Legislature and Governor Granholm completed action on the original fiscal year (FY) 2006-07 State budget. The enacted budget was based on the May 2006 consensus revenue estimate and estimates of expenditure needs agreed to at that time. Subsequent to the original enactment of the FY 2006-07 State budget, actual revenue collections fell below the May 2006 consensus revenue estimate and actual expenditures in several State departments exceeded the appropriations contained in the original budget. This combination of revenue shortfalls and expenditure increases led to sizeable deficits in the FY 2006-07 General Fund/General Purpose (GF/GP) and School Aid Fund budgets. This article outlines the size of the FY 2006-07 State budget deficit and describes the actions that were taken by the Legislature and the Governor to eliminate the projected budget deficit. Finally, the article examines the impact on the FY 2007-08 State budget of the decisions made to balance the FY 2006-07 State budget.

Size of the FY 2006-07 GF/GP and School Aid Fund Budget Deficits

One approach to outlining the size of the FY 2006-07 GF/GP and School Aid Fund budget deficits is to compare the current consensus revenue estimates with actual appropriations before the adoption of any adjustments to the budget to eliminate the projected budget deficit. Table 1 provides a comparison of the original enacted FY 2006-07 GF/GP budget with the current estimates before any adjustments to eliminate the deficit. This analysis reflects an \$856.4 million potential GF/GP budget deficit. This potential budget deficit was a result of a \$411.2 million decline in revenue below the May 2006 consensus revenue estimate upon which the original enacted budget was based and \$445.5 million of increased appropriations resulting from the positive GF/GP supplemental appropriations that were enacted since the original budget was put in place. The positive supplemental appropriations were primarily in the Departments of Community Health, Corrections, and Human Services budgets. These supplemental appropriations were needed to adjust these budgets to reflect higher caseload associated spending and to adjust for certain cost savings assumptions that were built into the original enacted budgets and failed to materialize. This potential deficit of \$856.4 million represented 8.9% of the year-to-date GF/GP appropriations.

Table 2 provides a comparison of the original enacted FY 2006-07 School Aid Fund budget with the current revenue estimates before the adoption of any adjustments to eliminate the deficit. This analysis reflects a \$515.2 million potential School Aid Fund budget deficit. This potential deficit was a result of a \$570.4 million decline in revenue below the May 2006 consensus revenue estimate upon which the original enacted budget was based, offset slightly by a \$55.2 million decrease in the estimated costs of fully funding the formulas in the School Aid Fund budget. This potential deficit of \$515.2 million represented 4.0% of the year-to-date School Aid Fund appropriations.



Table 1

FY 2006-07 Budget General Fund/General Purpose Revenue, Expenditures, and Year-End Balance (millions of dollars)			
	Original Enacted	August 2007 SFA Estimate	Dollar Difference
Revenue:			
Beginning Balance	\$ 109.6	\$ 2.5	\$(107.1)
Ongoing Revenue Estimate	8,435.4	8,187.5	(247.9)
Revenue Sharing Freeze	585.0	544.6	(40.4)
Other Revenue Adjustments	93.1	77.3	(15.8)
Total Revenue	\$9,223.1	\$8,811.9	\$(411.2)
Expenditures:			
Original Enacted Appropriations	\$9,222.8	\$9,222.8	\$ 0.0
Supplemental Appropriations:			
Supplemental Appropriations (PA 3 of 2007) ..	0.0	17.6	17.6
Supplemental Appropriations (PA 17 of 2007)	0.0	209.2	209.2
Supplemental Appropriations (PA 41 of 2007)	0.0	218.7	218.7
Subtotal Supplemental Appropriations	0.0	445.5	445.5
Total Appropriations	\$9,222.8	\$9,668.3	\$445.5
Potential Year-End Deficit	\$0.3	\$(856.4)	\$(856.7)

Table 2

FY 2006-07 Budget School Aid Fund Revenue, Expenditures, and Year-End Balance (millions of dollars)			
	Original Enacted	July 9, 2007 SFA Estimate	Dollar Difference
Revenue:			
Beginning Balance	\$ 95.2	\$ 0.0	\$ 95.2
Ongoing Revenue Estimate	11,552.4	11,077.2	(475.2)
GF/GP Grant	35.0	35.0	0.0
Federal Aid	1,411.2	1,411.2	0.0
Total Revenue	\$13,093.8	\$12,523.4	\$(570.4)
Expenditures:			
Original Enacted Appropriations	\$13,093.8	\$13,093.8	\$ 0.0
Midland Property Tax Case Funding Adjustment	0.0	24.8	24.8
Projected Appropriation Lapses	0.0	(80.0)	(80.0)
Total Appropriations	\$13,093.8	\$13,038.6	\$(55.2)
Potential Year-End Deficit	\$0.0	\$(515.2)	\$(515.2)
Actions Taken to Eliminate Potential Year-End Deficit:			
Categorical Grant Funding Reductions (PA 6 of 2007) ..	\$0.0	\$ 5.0	
Retirement Contribution Accounting Adjustments	0.0	262.0	
Refinancing of Outstanding Debt (PA 6 of 2007)	0.0	40.4	
Tobacco Securitization Borrowing	0.0	207.8	
Subtotal Actions Taken to Eliminate Deficit	\$0.0	\$515.2	
Projected Year-End Balance	\$0.0	\$0.0	



Actions Taken to Eliminate FY 2006-07 Budget Deficits

Throughout the spring and summer of 2007, the Legislature and the Governor agreed on a series of actions to eliminate the potential deficits in the FY 2006-07 GF/GP and School Aid Fund budgets. These actions include the approval of an Executive Order to reduce appropriations, the enactment of negative supplemental appropriations to reduce expenditures, and the approval of a series of one-time revenue sources that would be used to increase revenue. The combination of these actions has eliminated the potential GF/GP and School Aid Fund budget deficits.

Table 3 provides a summary of the actions that were taken to eliminate the potential \$856.4 million FY 2006-07 GF/GP budget deficit. The largest single portion of the GF/GP budget deficit solution involved \$207.2 million of one-time revenue resulting from the borrowing of a total of \$415.0 million to be paid back from future tobacco settlement revenue received by the State. The remainder of the \$415.0 million of revenue from the tobacco settlement borrowing was dedicated to the School Aid Fund budget. The next largest portion of the GF/GP budget solution was a one-time appropriation reduction resulting from a decision to delay the scheduled August 2007 payments to universities and community colleges until October 2007. This change reduced FY 2006-07 appropriations by \$164.6 million and resulted in an increased obligation of the same amount in the FY 2007-08 budget.

Table 3
FY 2006-07 Budget
General Fund/General Purpose
Actions Taken to Eliminate Projected Budget Deficit
(millions of dollars)

Potential Year-End Budget Deficit.....	\$(856.4)
Actions Taken to Eliminate Potential Year-End Deficit:	
Tobacco Securitization Borrowing	207.2
Community College and Higher Education Funding Delays.....	164.6
Retirement Contribution Accounting Adjustments	104.1
Restricted Revenue Transfers to GF/GP:	
Higher Education Authority Transfer to General Fund.....	70.0
Refined Petroleum Fund Transfer to General Fund	90.0
21st Century Jobs Fund Transfer to General Fund	50.0
Conservation Corps Transfer to General Fund.....	20.0
Subtotal Restricted Revenue Transfers to GF/GP	230.0
Fund Source Shifts.....	47.7
Refinancing State Debt	15.1
Reductions in State Programs	90.0
Subtotal Actions Taken to Eliminate Deficit.....	\$858.7
Projected Year-End Balance	\$2.3

The GF/GP budget deficit was reduced by \$104.1 million from changes in several assumptions that were used in making contributions into the State Employees Retirement System. These changes in retirement funding assumptions likely will result in increased



retirement contribution rates in the future. The GF/GP budget deficit was reduced by four one-time transfers of State Restricted revenue to the GF/GP budget which totaled \$230.0 million. These one-time revenue sources included: \$90.0 million from the Refined Petroleum Fund, \$70.0 million from the Higher Education Finance Authority, \$50.0 million from the 21st Century Jobs Fund, and \$20.0 million from the Conservation Corps Fund. Other one-time solutions included a total of \$47.7 million of fund source shifts where Federal or State Restricted funds were used to replace funding originally supported by GF/GP dollars. A total of \$15.1 million of savings resulted from a reduction in debt service payments on State outstanding bonds. The final component of the elimination of the FY 2006-07 GF/GP deficit was \$90.0 million of actual reductions in State programs. These reductions had an impact on a broad range of budget programs, with the largest reduction being a \$28.0 million decrease in the funding of universities.

Table 4 provides a summary of the actions that were taken to eliminate the potential \$515.2 million FY 2006-07 School Aid Fund budget deficit. The largest single portion of the School Aid Fund budget deficit solution involved \$262.0 million of savings from changes in several assumptions that were used in making contributions into the Public School Employees Retirement System. These changes in retirement funding assumptions likely will result in increased retirement contribution rates in the future. A total of \$207.8 million of the potential deficit was eliminated by the School Aid Fund portion of the \$415.0 million of tobacco settlement revenue borrowing. The refinancing of outstanding State debt paid with School Aid Fund revenue saved \$40.4 million. This change will result in increased debt service payments in the future. Finally, a total of \$5.0 million of the deficit was eliminated by actual reductions in programs.

Table 4 FY 2006-07 Budget School Aid Fund Actions Taken to Eliminate Projected Budget Deficit (millions of dollars)	
Potential Year-End Budget Deficit.....	\$(515.2)
Actions Taken to Eliminate Potential Year-End Deficit:	
Retirement Contribution Accounting Adjustments	262.0
Tobacco Securitization Borrowing	207.8
Refinancing of Outstanding Debt (PA 6 of 2007)	40.4
Categorical Grant Funding Reductions (PA 6 of 2007)	5.0
Subtotal Actions Taken to Eliminate Deficit.....	\$515.2
Projected Year-End Balance	\$0.0

Table 5 provides a summary of the actions that were taken to eliminate the combined potential FY 2006-07 GF/GP and School Aid Fund budget deficits. The combined potential budget deficits totaled \$1.37 billion. The budget deficit solutions included 30.2% from tobacco settlement borrowing, 26.6% from changes in retirement contribution assumptions, 16.7% from restricted revenue transfers, 12.0% from funding delays to universities and community colleges, 6.9% from reductions in State programs, 4.0% from the refinancing of State debt, and 3.5% from fund source shifts.



Impact of FY 2006-07 Budget Balancing Decisions on FY 2007-08 Budget

The decisions made by the Governor and the Legislature to balance the FY 2006-07 GF/GP and School Aid Fund budgets will have a substantial impact on the FY 2007-08 State budget. As was summarized in [Table 5](#), a large percentage of the decisions made to balance the FY 2006-07 budget involved one-time revenue sources, one-time revenue from borrowing, funding delays, and retirement accounting changes. While these decisions did bring the FY 2006-07 budget into balance, they create imbalances in the FY 2007-08 State budget. This occurs from the fact that these one-time solutions in FY 2006-07 supported ongoing appropriations. During FY 2007-08 these ongoing appropriations will continue to be part of the budget, but the one-time revenue sources will not be available to support them. This results in significant projected imbalances between ongoing FY 2007-08 GF/GP and School Aid Fund revenue and appropriations. This is the current issue that the Legislature and the Governor are attempting to resolve. The imbalance will be resolved by any combination of appropriation reductions, revenue increases, and/or the potential of additional one-time revenue sources.

Table 5
FY 2006-07 Budget Balancing Summary
General Fund/General Purpose and School Aid Fund
(millions of dollars)

	July 9, 2007 SFA Estimates	Percent of Total Actions
Projected Year-End Deficits:		
General Fund/General Purpose	\$ (856.4)	
School Aid Fund	(515.2)	
Combined Projected Year-End Deficit.....	\$(1,371.6)	
Actions Taken to Eliminate Deficits:		
Tobacco Securitization Borrowing	\$415.0	30.2%
Retirement Accounting Changes	366.1	26.6
Restricted Revenue Transfers to GF/GP	230.0	16.7
Funding Delays to Universities and Community Colleges	164.6	12.0
Programmatic Appropriation Reductions.....	95.0	6.9
Refinancing State Debt.....	55.5	4.0
Fund Source Shifts	47.7	3.5
Total Actions Taken to Eliminate Deficit	\$1,373.9	100.0%

State Notes

TOPICS OF LEGISLATIVE INTEREST

July/August 2007



A Summary of Quality Assurance Assessment Programs **By David Fosdick, Fiscal Analyst**

Since fiscal year (FY) 2001-02, the State of Michigan has made use of targeted tax programs for medical providers, known as Quality Assurance Assessment Programs (QAAPs), to fund increases in Medicaid reimbursement and generate General Fund/General Purpose (GF/GP) savings. The State currently makes use of QAAPs to enhance Medicaid reimbursement to Medicaid health maintenance organizations (HMOs), nursing homes, hospitals, and Community Mental Health (CMH) agencies.

While there is a great deal of discussion about the role of these taxes in Medicaid finance, there is still some confusion about how these programs are structured and administered. This article will review how QAAPs are structured, summarize provider taxes in Michigan, and explore other provider groups that may be able to make use of this arrangement to increase Medicaid reimbursement rates.

How a QAAP Works

The structure of provider tax arrangements is relatively straightforward. A QAAP is generally operated in the following way:

1. The State imposes a tax upon a class of medical providers and collects the revenue.
2. A portion of the revenue collected by the State replaces GF/GP dollars as the non-Federal share of Medicaid funding. The GF/GP saving achieved by the State through the QAAP is often called gainsharing.
3. Remaining revenue generated through the tax is used to increase the reimbursement rates paid to the taxed provider group for services to Medicaid recipients. When the funding is used to increase provider rates it generates Federal matching funds, about \$1.30 Federal for every \$1 in State expenditure. With a Federal match included in the rate increase, a provider group (as a whole) will receive more revenue in Medicaid reimbursement than it paid in taxes.

The hospital QAAP in FY 2005-06 provides a good example of how this structure works.

1. Michigan taxed each hospital in the State 1.8% of its net patient revenue. In FY 2005-06, this tax generated about \$243.1 million in revenue.
2. Michigan retained \$46.4 million of the \$243.1 million as gainsharing.
3. Michigan used the remaining \$196.7 million in QAAP revenue to increase Medicaid rates paid to hospitals. These funds generated \$256.5 million in Federal matching funds leading to a total rate increase of \$453.2 million.

State Notes

TOPICS OF LEGISLATIVE INTEREST

July/August 2007



The example provided above demonstrates how this type of program can be popular with provider groups. In FY 2005-06, hospitals provided a little over \$240.0 million in tax and through the process increased Medicaid reimbursement by over \$450.0 million. Hospitals in Michigan saw a net increase in funding of \$210.1 million; and the State was able to reduce GF/GP spending for Medicaid by \$46.4 million.

Legal Basis for QAAPs

The Federal Social Security Act specifically allows states to impose taxes on health care providers and use the revenue generated by the assessment for use as non-Federal Medicaid matching funds. The following provider groups and services are identified in the Social Security Act as eligible for provider tax programs:

- inpatient and outpatient hospital services,
- nursing facility services,
- services provided in facilities for the mentally retarded,
- physician services,
- home health services,
- outpatient prescription drugs, and
- services through Medicaid managed care organizations.

Federal law establishes some mandates on the structure of these provider taxes. There are three major criteria that a Medicaid provider tax must meet to be acceptable in the eyes of the Federal government.

1. The tax rate imposed upon providers may not exceed 5.5%. For many years this standard was 6.0% but the Federal government modified it in 2006.
2. The tax must be "broad-based". This means that the tax must be applied to an entire provider group (for example, all the hospitals in a state).
3. If possible, the tax must create winners and losers. States may not establish a provider tax that is structured to minimize or eliminate financial loss by providers.

While the Federal government relies upon these standards to judge the worthiness of provider tax programs, there are loopholes in the Social Security Act that have permitted states (including Michigan) to establish provider assessment programs that conflict with these conditions.

The most significant loophole that states have used relates to taxes imposed upon Medicaid HMOs. The Federal statute that defines the providers eligible for provider tax programs refers to most provider groups in general terms (for example, inpatient and outpatient hospital services). Since the language refers only to the provider type and because taxes must be broad-based to earn Federal approval, a tax on hospitals would have to be equally imposed upon hospitals with high Medicaid volume (organizations that would benefit from the provider tax) and hospitals with very low Medicaid volume (which would lose financially through a provider tax).



In the case of HMOs, however, the statute refers to this provider class as *Medicaid managed care organizations*, instead of managed care organizations. This has permitted HMOs in Michigan to spin off their Medicaid business into separate entities and make only their Medicaid business subject to the tax; it also permits the State to tax only Medicaid mental health business through the CMH QAAP. Because these agencies pay tax only on their Medicaid business, there is no way a participating provider could pay more through the QAAP than it would receive back in increased Medicaid reimbursement. Because of this loophole, the Medicaid HMO QAAP and the CMH QAAP are not broad-based (i.e., they are imposed only on Medicaid providers) and the QAAPs only tax organizations that will benefit financially through the arrangement.

This loophole was addressed by Congress in the Federal Deficit Reduction Act of 2005. Beginning in FY 2008-09, Michigan will no longer be able to tax Medicaid managed care organizations exclusively.

The History of QAAPs in Michigan

Table 1 details use of QAAPs in Michigan and the financial benefit associated with their implementation. The table demonstrates the two major advantages of the provider taxes. First, the assessment permits significant increases in Medicaid reimbursement for providers. From FY 2001-02 to FY 2006-07, participating providers have paid nearly \$2.6 billion in tax under the QAAPs and through this process have increased Medicaid rates by over \$4.7 billion. Higher reimbursement for Medicaid services is important for safety-net health care institutions and creates greater financial incentive for providers to participate in the Medicaid program, thereby improving access for Medicaid recipients.

The second major advantage of this program is the GF/GP savings to the State. The State of Michigan has reduced GF/GP expenditure on Medicaid by over \$500.0 million through use of QAAPs since FY 2001-02.

State Notes
TOPICS OF LEGISLATIVE INTEREST
July/August 2007



Table 1

Michigan QAAPs FY 2001-02 to FY 2006-07				
Provider Group	QAAP Revenue	Medicaid Rate Increase	Net Provider Impact	State Gainsharing
<u>FY 2001-02</u>				
Nursing Home	\$11,319,500	\$25,938,400	\$14,618,900	\$0
<u>FY 2002-03</u>				
Nursing Home	\$43,625,900	\$97,859,800	\$54,233,900	\$0
Medicaid HMO	41,947,800	94,095,600	52,147,800	0
Hospital	103,030,000	188,716,900	85,686,900	(18,900,000)
Total	\$188,603,700	\$380,672,300	\$192,068,600	(\$18,900,000)
<u>FY 2003-04</u>				
Nursing Home	\$123,551,400	\$237,251,000	\$113,699,600	(\$18,900,000)
Medicaid HMO	98,355,900	222,978,700	124,622,800	0
Hospital	102,269,400	177,499,400	75,230,000	(23,974,400)
Total	\$324,176,700	\$637,729,100	\$313,552,400	(\$42,874,400)
<u>FY 2004-05</u>				
Nursing Home	\$139,497,500	\$271,650,500	\$132,153,000	(\$21,900,000)
Medicaid HMO	114,662,300	229,758,100	115,095,800	(15,200,000)
Hospital	236,138,000	434,409,900	198,271,900	(47,300,000)
Community Mental Health	15,233,100	16,708,500	1,475,400	(8,000,000)
Total	\$505,530,900	\$952,527,100	\$446,996,200	(\$92,400,000)
<u>FY 2005-06</u>				
Nursing Home	\$218,327,900	\$411,029,500	\$192,701,600	(\$39,900,000)
Medicaid HMO	119,038,700	201,350,100	82,311,400	(20,632,600)
Hospital	243,144,400	453,223,700	210,079,300	(46,400,000)
Community Mental Health	95,705,000	129,474,800	33,769,800	(39,500,000)
Total	\$676,216,000	\$1,195,078,100	\$518,862,100	(\$146,432,600)
<u>FY 2006-07</u>				
Nursing Home	\$222,683,200	\$419,035,300	\$196,352,100	(\$39,900,000)
Medicaid HMO	157,398,500	249,370,000	91,971,500	(48,623,300)
Hospital	386,020,000	732,737,200	346,717,200	(66,400,000)
Community Mental Health	110,424,700	140,934,400	30,509,700	(48,949,100)
Total	\$876,526,400	\$1,542,077,000	\$665,550,500	(\$203,872,400)
<u>Total</u>				
Nursing Home	\$795,005,400	\$1,462,764,500	\$703,759,100	(\$120,600,000)
Medicaid HMO	531,403,200	997,552,500	466,149,300	(84,455,900)
Hospital	1,070,601,800	1,986,587,100	915,985,300	(202,974,400)
Community Mental Health	221,362,800	287,117,700	65,754,900	(96,449,100)
All QAAPs Total	\$2,582,373,200	\$4,734,021,800	\$2,151,648,600	(\$504,479,400)

Source: State Budget Office



Future of QAAPs in Michigan

As noted previously, several changes in Federal rules governing the structure of provider taxes will limit Michigan's ability to save GF/GP money through QAAPs in the near future. A change in the maximum QAAP rate from 6.0% to 5.5% will affect the Community Mental Health and Medicaid HMO QAAPs. In FY 2007-08, this will increase GF/GP cost for Medicaid by over \$21.4 million. The Federal Deficit Reduction Act of 2005 also will eliminate the Medicaid HMO loophole in FY 2008-09. This means that Michigan either will have to subject all managed care organizations in the State to the provider tax (an arrangement that would be a financial loser to many organizations) or will have to eliminate the Medicaid HMO and CMH QAAPs, which could increase GF/GP cost for Medicaid by \$100.0 to \$200.0 million.

While changes in Federal rules may limit Michigan's ability to operate some current provider taxes as they have been generated in the past, the State has some opportunities for expanding provider groups participating in QAAPs. The best opportunity Michigan has to expand QAAP revenue would be through the creation of a physician QAAP. This arrangement was included in the Governor's budget recommendation in FY 2005-06 but was strongly opposed by several physician organizations and was not enacted by the Legislature.

The physician QAAP would have established a 1.0% tax on physician revenue. The revenue from this tax would have been used to create \$40.0 million in GF/GP savings and increase Medicaid reimbursement to physicians by \$120.0 million. It was determined at the time that a 2.3% tax, with a similar level of gainsharing, would permit the State to increase Medicaid physician reimbursement to that offered through the Federal Medicare program, the maximum level of reimbursement a state can offer Medicaid providers.

Some type of provider tax arrangement for physician services is probably the best chance Michigan has to use a QAAP to drive significant GF/GP savings to the State and provide a large rate increase to a large Medicaid provider group. Michigan has previously explored expanding the QAAP to pharmaceutical services but this concept ran into similar political opposition and the creation of the Medicare prescription drug benefit has minimized the financial benefit associated with this program.

Conclusion

At a time when spending and revenue pressures have made it difficult for Michigan to make positive rate adjustments to participating Medicaid providers, use of the QAAP has permitted the State to keep rates competitive. This has been important as Medicaid caseload in Michigan has grown significantly since 2000. As the Federal government has become more aggressive in identifying and eliminating states' strategies to minimize their Medicaid cost exposure, it is important for this State to continue to identify and exploit strategies to maximize financial support for medical providers participating in Michigan Medicaid.

State Notes

TOPICS OF LEGISLATIVE INTEREST

July/August 2007



A Renewable Portfolio Standard for Michigan **By Julie Cassidy, Legislative Analyst**

According to a report by the Public Service Commission (PSC), *Michigan's 21st Century Electric Energy Plan* (January 2007), the State's demand for electricity is anticipated to grow by approximately 1.3% per year over the next 20 years, and will necessitate the construction of additional baseload generation in the future. The need for new generation has stimulated discussion regarding the ideal fuel for the State's electric requirements. Concerns about pollution, energy prices, and the limits of the fossil fuel supply have led some to consider a greater reliance on renewable energy sources, such as wind, sunlight, and biomass. It has been suggested that one way to decrease dependence on fossil fuels would be to require that a certain percentage of the energy produced in the State come from renewable resources. To date, 24 states and Washington, D.C. have enacted some form of renewable portfolio standard, or RPS. This article examines the debate surrounding whether an RPS is right for Michigan.

Energy Prices

According to the *21st Century Plan*, a significant amount of the power generated in Michigan comes from coal, natural gas, and nuclear energy, while only 3.0% comes from renewable resources. Renewable portfolio standard advocates assert that a more diverse mix of fuels, particularly those indigenous to Michigan, would reduce the overall cost of electricity and provide some protection against price fluctuations.

First, energy sources such as wind and solar power are free, while coal, natural gas, and uranium necessarily carry a cost. Furthermore, nearly all of the fossil fuels used currently in Michigan power plants must be imported from other states and countries, which adds to the cost. According to RPS proponents, over time, increased use of in-State, renewable fuel would result in lower costs to consumers. Additionally, price spikes at peak demand times or due to shortages of traditional fossil fuels would be mitigated.

Environmental Concerns

Another argument in favor of an RPS is that renewable fuels would reduce emissions of pollutants and greenhouse gases, resulting in fewer environmental consequences and health problems.

Many argue that shifting to a greater reliance on renewable energy sources also would mitigate increases in the cost of energy due to measures to reduce pollution from fossil fuels enacted in the future, such as a carbon tax, pollution permits, or a requirement for carbon capture equipment.

Economic Development

Proponents of an RPS emphasize Michigan's strong traditions of manufacturing and agriculture, and tout the thousands of jobs that could be created to provide raw materials, manufacture components of renewable energy generation facilities, and construct and



operate those facilities. In addition to providing jobs, such facilities would generate increased tax revenue to local governments.

Some, however, question the need to impose a government mandate on utilities to produce a certain percentage of electricity by using renewable fuels. They note that, despite the absence of an RPS, John Deere Wind Energy has begun construction of the Harvest Wind Farm, which will produce enough electricity for more than 15,000 homes. Wolverine Power has signed a 20-year purchase agreement with the wind farm, which is located in Huron County. The project is projected to save Michiganders \$4.0 billion over the length of the agreement.

Those who support a renewable portfolio standard counter that it would guarantee a market in the State for prospective investors in the alternative energy industry and related industries, and point to the success of other states in attracting businesses via an RPS. Additionally, proponents say, the RPS would be fair because it would allow each provider to determine how it would meet the standard, and would stimulate competition and lower prices. They caution, however, that a mandate should be practical and phased in slowly to protect consumers from dramatic rate hikes due to increased demand for certain renewable resources.

Michigan's Renewable Potential

There are several renewable resources that could be used to meet an RPS, each with benefits and challenges. Some have identified wind as a possibility, noting that Michigan is the 14th windiest state in the country. One drawback is that wind is less abundant during the summer months, when demand and electricity prices are high. It has been pointed out that turbines could be placed in the Great Lakes to harness the added wind power off-shore, although the development of off-shore technology currently is not as advanced as the technology for land-based turbines. Some people are concerned that birds and bats can be killed by the blades of wind turbines. Some find wind turbines noisy and visually unappealing, and worry that their property values could be affected. In order to address those concerns, the turbines, which require a significant amount of land, could be erected on farmland, away from neighboring residents. Farmers could continue to plant crops on the land while also receiving money for leasing it to energy producers.

Solar energy, like wind, is available intermittently, but also is most available during peak demand times. The equipment needed to harness the sun's power can be expensive, however, and, to meet an RPS requirement, would require extensive land and rooftop areas. Although the cost appears to be coming down, it most likely will be some time before solar power is a practical choice for most residents.

Another option is biomass, or agricultural crops, residue, and waste generated from the production and processing of agricultural products, food processing waste, animal waste, and landfill gas. The generation of energy from biomass creates an additional value-added market for crops, creates a market for various byproducts that otherwise would be considered waste, and reduces the amount of greenhouse gases released into the

State Notes

TOPICS OF LEGISLATIVE INTEREST

July/August 2007



atmosphere. While the sources of biomass are plentiful in Michigan, development of their applications thus far has been focused more on transportation than on electric generation.

Another resource that also is considered renewable is water, which already has been used to generate electricity for many years. According to the Energy Information Administration of the U.S. Department of Energy, hydroelectric power accounted for 7.0% of total U.S. electricity generation and 73.0% of generation from renewable resources in 2005. Hydroelectric generation is relatively inexpensive, does not result in waste, and does not produce pollution. A drawback is that the infrastructure can have a detrimental impact on aquatic life and habitat, although measures can be taken to diminish any negative effects.

Those who support a mandatory RPS note that it is unlikely that one renewable source could meet all of the State's energy needs, but that a mix of resources should be used.

RPS Details

Some contend that, while an RPS is a good idea, the particulars of the standard must take into account various factors in order for it to be successful. While several other states have enacted aggressive standards, it is unclear whether such an aggressive standard would be appropriate in Michigan. The specific renewable assets available in the State must be considered. The time line for attaining a specific standard should allow for the processing of interconnection requests, the issuance of permits, and the performance of necessary transmission and distribution system upgrades. Additionally, land use and zoning statutes and ordinances could affect the amount of time needed to reach a certain percentage of renewable energy. Some have suggested that the Customer Choice and Electricity Reliability Act should be examined for potential reforms in order to provide more certainty for investors.

State Legislation

Several proposals to establish an RPS for Michigan have been introduced in the Legislature during the 2007-2008 session. Senate Bill 385 and House Bill 4539 would require the PSC to set an RPS for each electric service provider, and require the RPS to be at least 20.0% by 2021. Senate Bill 213 and House Bill 4562 would require each provider to set an RPS, and require the RPS to be at least 10.0% by 2016. Senate Bill 219 and House Bill 4319 would require the PSC to set an RPS for each provider, and require the RPS to be at least 7.0% by 2015. All of the bills would allow a provider to meet the RPS either by generating or acquiring renewable energy, or by acquiring renewable energy "credits" from a renewable energy system. The bills also would require the PSC to impose a fine on a provider that did not meet the standard. Additionally, Senate Bill 385 and House Bill 4539 would require the fine money to be deposited into a public benefits fund for the promotion and growth of renewable energy generation.

State Notes

TOPICS OF LEGISLATIVE INTEREST

July/August 2007



The Senate bills have been referred to the Senate Committee on Energy Policy and Public Utilities. The House bills have been referred to the House Committee on Energy and Technology.¹

Federal Legislation

Several proposals for renewable portfolio standards have been introduced in the U.S. Congress. Thus far, the measure that has advanced is H.R. 3221, which would create the Renewable Energy and Energy Conservation Tax Act of 2007. The bill would establish an RPS of 15.0% by 2020 and thereafter through 2039, and would allow the use of credits to meet the standard. The House of Representatives passed the legislation on August 8, 2007.

¹ The prime sponsors of Senate Bills 213, 219, and 385 are, respectively, Senators Patricia L. Birkholz, Roger Kahn, and Jim Barcia. The prime sponsors of House Bills 4319, 4539, and 4562 are, respectively, Representatives Howard Walker, Robert Jones, and Frank Accavatti.

State Notes

TOPICS OF LEGISLATIVE INTEREST

July/August 2007



Judicial Resource Recommendations 2007 **By Stephanie Yu, Fiscal Analyst**

On August 1, 2007, the State Court Administrative Office (SCAO) submitted its biennial report on judicial resources to the Legislature. Article VI, Section 3 of the State Constitution requires the Supreme Court to appoint “an administrator of the courts”, who must perform administrative duties assigned by the court.

In addition, Section 8171 of the Revised Judicature Act states:

The supreme court may make recommendations to the legislature in regard to changes in the number of judges, the creation, alteration and discontinuance of districts based on changes in judicial activity.

Therefore, in keeping with its constitutional and statutory responsibilities, the SCAO issues a biennial set of recommendations for changes in the number of judgeships. The report assesses current judicial staffing and determines which courts have excess judges, and which courts may need additional judges. The 2007 recommendation also addresses Court of Appeals judges, for the first time since 1994. Due to current budgetary considerations, the recommendation does not suggest adding judgeships, but focuses on those areas where judges could be eliminated, according to the SCAO analysis. The State Constitution imposes the requirement that each probate district have at least one probate judge, and each circuit at least one circuit judgeship, which limits the scope of the recommendations. The report recommends the elimination through attrition of 10 trial court judges and four Court of Appeals judges. Table 1 shows the trial court judgeships recommended for elimination.

Table 1

Trial Court Judgeships Recommendations By State Court Administrative Office		
Jurisdiction	County	# of Judgeships Eliminated
3 rd Circuit	Wayne	2
25 th Circuit	Marquette	1
36 th District	Wayne	1
70 th District	Saginaw	1
81 st District	Alcona, Arenac, Iosco & Oscoda	1
95A District	Menominee	1
95B District	Dickinson & Iron	1
97 th District	Baraga, Houghton & Keewenaw	1
98 th District	Gogebic & Ontonagon	1

Source: 2007 Judicial Resources Recommendations

The Court of Appeals is divided into four districts, and the recommendation would eliminate four judges. The SCAO cites the decrease in appellate filings, from a high of 13,352 in 1992 to under 8,000 in 2006, as a major reason for the recommendation. The report states that budgetary constraints have led to a decrease in staff, which in turn has shifted more of the



preparatory work to the judges. Therefore, by eliminating judges and restoring staff, the Court of Appeals would use its resources more effectively, according to the SCAO.

Fiscal Impact

The SCAO estimates yearly savings of \$1,567,368 for the State if all of the trial court recommendations were implemented. For each circuit or probate judgeship eliminated, the State would save \$157,987. For each district judgeship, the savings to the State would be \$156,201. Savings to local units would vary depending on their costs for benefits and resources, but could be substantial.

For each Court of Appeals judgeship, the State would save \$183,853 per year, for a total of \$735,412. In addition, according to the SCAO, eliminating those judgeships also would eliminate four law clerks and four judicial assistants, for additional savings of \$698,680. However, the SCAO report recommends using \$770,000 of the savings to hire 11.0 additional research attorneys at \$70,000 per attorney per year. Based on the SCAO recommendations, the Court of Appeals would realize \$664,088 in savings.

If all of the recommendations in the report were implemented, total annual savings would be approximately \$2,231,456. However, the additional recommendation to eliminate these judgeships through attrition means that the full savings would not necessarily be realized for many years. The 28 Court of Appeals judges have terms ending January 1 of 2009, 2011, or 2013. The trial court judgeships have varying terms as well, and age is the only limit on seeking re-election. According to the Michigan Constitution, judges must be less than 70 years of age at the time of election or appointment. In the 3rd and 25th Circuits, there are judges who cannot seek re-election due to age, but the time frame for the other districts could vary considerably. At the earliest, the State could realize some savings from these changes in fiscal year (FY) 2008-09, but the total savings likely would not be realized for many more years.

History

Trial Courts

The SCAO issues judicial resource recommendations (JRR) every two years. In 2005, the JRR advocated the elimination of one circuit judgeship, two district judgeships, and one probate judgeship, as well as the addition of six circuit judgeships. Of those recommendations, four circuit judgeships were ultimately added, and no judgeships were eliminated. Circuit judgeships were added in the following places: Macomb County (16th Circuit), Kent County (17th Circuit), Mecosta/Osceola Counties (49th Circuit), and Clare/Gladwin Counties (55th Circuit). The total cost to the State per year amounts to approximately \$630,000. The Legislature approved additional circuit judgeships for Oakland County (6th Circuit) and Genesee County (7th Circuit) but they were not implemented at the local level. Due to the costs to the local unit, the law requires adoption of a local resolution to add judgeships. Genesee County did not approve a resolution, and Oakland County approved one effective January 1, 2009. The 2003 JRR proposed the elimination of four district judgeships and one circuit judgeship, and the addition of three circuit judgeships. None of these changes were implemented. In fact, recommendations for the elimination of judgeships have not been implemented since the 2001 JRR.



Of the 10 trial court judgeships recommended for elimination in 2007, only two had been recommended for elimination in 2005, in the 70th District (Saginaw) and the 3rd Circuit (Wayne), although the recommendation for Wayne County changed from a probate judgeship to a circuit judgeship. The 2005 report showed a need for an additional judgeship in the 36th District, while the 2007 report supports the elimination of a judgeship. Both reports cite decreasing caseloads and population, as well as funding difficulties. However, the 2007 JRR also recommends that the savings from eliminating a judgeship be used to alleviate a staffing shortage in the 36th District; therefore, the resulting savings for the local unit could be less than anticipated. The remaining districts recommended for reductions in 2007 were not included in the 2005 extended analysis.

Court of Appeals

Judicial resources in the Court of Appeals have not been assessed since the 1994 report, which had a different methodology than the current one. At that time, the SCAO recommended that the Court of Appeals be expanded by 12 judges, from 28 to 40 as of 1997. This recommendation stemmed from a significant increase in both criminal and civil filings. While the methodology in place at that time emphasized caseload over other factors, such a large increase represented a significant need. The number of Court of Appeals judges was last adjusted in 1995, with an increase of four judgeships, from 24 to the current 28. That increase was anticipated in the 1994 JRR. For many years, the Court of Appeals made use of visiting judges to alleviate the workload for the Court of Appeal judges. The number of visiting judges reached a high of 11.73 in 1996. Since 2004, visiting judges have not been used.

Response to the 2007 JRR

Supreme Court

The response to the 2007 report has been extremely varied and heated. Within the Supreme Court itself, four of the seven justices voted to release the report to the Legislature, while the remaining three justices voted against its release. Those three justices, Justices Weaver, Cavanagh and Kelly, offered memoranda dissenting from the recommendation of the majority. The justices raised questions about the report's methodology and objectivity. Justice Weaver further argued that the time line for the release of the report was compressed and did not allow sufficient time for the justices to review the recommendations. In a separate statement concurring with the report, Justice Young stated that the methodology is the same as has been used since the 2003 report, and that budgetary constraints must be addressed. Justice Young also pointed out that the idea to reduce the number of Court of Appeals judges is not new, as it was discussed at a judges' conference in 2005. Additionally, Chief Justice Taylor had sent a letter in April to Governor Granholm, requesting that she delay the appointment of new judges until the report was issued.

Court of Appeals

The Chief Judge of the Court of Appeals, Judge Whitbeck, has come out strongly against the proposed reductions in the Court of Appeals. Judge Whitbeck has publicly asked whether the Michigan Constitution allows the Legislature to reduce the number of Court of Appeals judges.



Article 6, Section 8 of the Constitution states, "The number of judges comprising the court of appeals may be increased, and the districts from which they are elected may be changed by law." Given the wording of the Constitution, Judge Whitbeck has questioned whether a decrease in the number of judges is allowable. Judge Whitbeck also has questioned the analysis that led to the proposed reductions. In a public position statement, Judge Whitbeck has argued that while filings are down, the workload per judge has been increasing, due to less reliance on visiting judges. Both dispositions and filings per judge have increased since 2001, from 267.3 dispositions and 249.6 filings per judge in 2001, to 295.6 dispositions and 284.0 filings per judge in 2006. Judge Whitbeck also has argued that research attorneys should not be considered sufficient substitutes for judges. Research attorneys are divided into two categories: pre-hearing attorneys and senior research attorneys. The cost per attorney cited in the SCAO report of \$70,000 would be the cost for pre-hearing attorneys who, as a rule, are relatively inexperienced. According to Judge Whitbeck, the more complex cases that the judges handle could not reasonably be shifted to pre-hearing attorneys. The average annual cost for a senior research attorney, including benefits, is \$114,000.

Delay Reduction

Since 2001, the Court of Appeals has been working to reduce the amount of time it takes to dispose of cases. In 2001, the average time to decide a case was 653 days. By 2006, that number had dropped to 423 days, a decrease of 35.0%. According to Judge Whitbeck, any improvements made in processing time may be lost if the number of judges is reduced. The SCAO report contends that because the Court of Appeals is currently processing more cases each year than there are new filings, the potential for further delay reduction is limited. The impact of a reduction in judgeships on this program is uncertain.

Conclusion

The 2007 Judicial Resource Recommendations have sparked controversy, particularly within the Supreme Court and the Court of Appeals. There are often negative reactions to the elimination of judgeships in a given area; however, the recommendation to reduce the number of judges on the Court of Appeals has drawn additional debate. The report recommends the elimination of 10 trial court judgeships by attrition, which would eventually save the state approximately \$1.6 million annually. Any savings would not occur until FY 2008-09 at the earliest; however, the total savings would not necessarily be realized for many years. The number of trial court judgeships in any area is set in statute and can be changed by the Legislature. The recommendation to eliminate four appellate judges and shift part of the savings to staff attorneys would save the State \$664,088 per year. The number of judges on the Court of Appeals also is set in statute, though the number of judges has never been decreased. Eliminating these positions by attrition also would delay any savings until at least FY 2008-09.

State Notes

TOPICS OF LEGISLATIVE INTEREST

July/August 2007



Permanency Options for Children in Foster Care **By Curtis Walker, Legislative Analyst**

Introduction

There are about 19,000 children in foster care in Michigan. Since the laws governing foster care in the State underwent a major revision in 1997, the Department of Human Services (DHS) has placed a higher emphasis on finding permanent placements for children in the custody of the State as quickly as possible. Despite those efforts, many contend that children in the system are not being served well, that current policies have led to an increase in the number of foster children, and that once in foster care, many children are unlikely to find a permanent placement. In addition, reviews and audits of the foster care system have identified numerous failings and deficiencies. High-profile cases of children who have been abused, neglected, or killed while in foster care have raised further concerns over the program. To address these and other issues, various reforms have been suggested to improve the effectiveness of foster care, reduce the costs of the program, and help youths aging out of the system make the transition to adulthood.

This article offers a review of some of the proposals, along with the permanency options that are available to foster children in the State.

Child Placement

Children are placed into foster care if the court determines that it would be unsafe for them to remain in the home. Children in foster care often have been the victims of abuse or neglect, or have been living with parents who otherwise have been deemed unfit to care for them.

When a child enters foster care, a permanency planning hearing must be held within 12 months to explore placement options for the child. Generally, the most preferable option is reunification with the parent if the issues that caused the removal can be resolved. In some situations, however, it may be determined that reunification is not in the child's best interest, in which case the court may order the termination of parental rights. The child then may be placed with a member of the extended family, or may be made available for adoption.

That process is often slow and difficult, however. A suitable placement might not be available immediately, or the parent may appeal the termination order. A lengthy appeal may extend the amount of time that the child is in foster care. To help expedite the process, several observers have suggested that concurrent planning be made for the child, allowing different options to be explored simultaneously. For instance, potential adoptive parents for a child could be located while the order to terminate parental rights was pending, enabling the adoption to proceed shortly after parental rights were terminated. Alternative options, such as a permanent guardianship arrangement, could be explored at the same time, in case the court failed to terminate parental rights. Senate Bill 671, introduced by Senator Kahn on August 1, 2007, would permit the DHS to engage in concurrent planning for foster children while attempts were being made to reunify the family. The bill was referred to the Senate Committee on Families and Human Services.



Also, children with special needs, including mental or physical health problems, are generally more difficult than others to place. There is a shortage of individuals who are well suited and willing to adopt those children, because of the significant responsibilities and challenges involved. Some increased efforts have been made to recruit adoptive parents for children with special needs, and increased payments of between \$5 and \$15 per day are available for foster care providers caring for children with mental or physical health problems. It has been suggested that additional money should be made available to help those parents cover the cost of medical expenses or other necessary treatments not covered by Medicaid.

Termination of Parental Rights

According to the 2007 Kids Count report by the Annie E. Casey Foundation, about 11 out of every 1,000 children in the State were in foster care at some point during 2004¹, placing Michigan slightly above the national average. However, a disproportionate number of children in Michigan age out of the foster care system without ever having a permanent placement. The Kids Count report found that 667 children aged out of foster care during 2004, compared with the national average of 454. Many critics believe that changes to the foster care laws in 1997 are partly to blame.

In 1997, amid growing concerns over child abuse and neglect, legislation amended the Child Protection Law, juvenile code, Foster Care and Adoption Services Act, and foster care review board Act were revised to provide additional protections for children found to be in unsuitable living environments. Supporters argued that the changes would enable the State to protect children more actively, by allowing the State to remove children from harmful environments and place them into more positive situations.

In the following years, the number of parental rights termination orders increased significantly, from 3,962 in 1997 to 6,248 in 2002, an increase of more than 57.0% over five years, according to the DHS Children Services Administration. (Since 2002, the number of termination orders has remained fairly stable. In 2006, there were 6,292 termination orders.) Some believe that the revised laws have led the courts to terminate parental rights in cases in which other actions might be more appropriate.

The Michigan Foster Care Review Board, among others, has recommended that a child's prospects for adoption be reviewed before parental rights are terminated, decreasing the child's chances of becoming a permanent ward of the State. Even if the living situation with the parent is imperfect, some believe that it could be better for the child than an indefinite placement in the foster care system with no real chance of being adopted.

Minimizing Foster Care Placements

A prolonged stay in foster care can be damaging to a child emotionally. Children placed in foster care often have been the victims of neglect or abuse, and having a stable placement in the care of responsible adults is especially important as they begin to recover from those

¹ The Kids Count Data Book was released on July 25, 2007, although the foster care data contained in the report are from 2004.



experiences. Upon initial placement in foster care, children may not understand why they have been separated from their parents and may blame themselves, or feel abandoned, according to the Foster Care Review Board and other experts. The longer a child is in foster care, the more likely it is that he or she may be moved from one foster care provider to another, creating a greater sense of dislocation and disrupting any bonds that may have formed between the child and the foster care provider.

The Foster Care Review Board, in its 2006 annual report, recommended that child placing agencies make an effort to minimize such disruptions by keeping a child in one placement rather than transferring the child to multiple foster parents.

Relative Care

Placing a child with a relative can be an attractive alternative to foster care. Generally, children may feel more comfortable in the home of a relative whom they know, and being in a relative's home can establish a greater sense of stability and permanency, even if the placement is only temporary while steps are being taken toward reunification with the parent. Placement with a relative also is less expensive than placement with a licensed foster care provider. Because of these benefits, the State has made greater efforts in recent years to place children with family members whenever appropriate. According to the DHS Children's Services Administration, the number of placements with relatives has been increasing steadily over the past 10 years, from 3,883 in 1997 to 6,628 in 2006.

The increased reliance on relative care has created some problems, however. Most relatives are not licensed foster care providers, meaning that they are not eligible to receive foster care payments to help cover the expenses of caring for the child. Having an additional child in the home can be a substantial financial burden, and is sometimes more than the caregiver can handle alone. Children who are not in the foster care system also may not be eligible for Medicaid funding, which is particularly problematic for children with special medical or mental health problems. To help address these problems, Senate Bill 170 would provide for assistance to relatives caring for children who otherwise would end up in the foster care system. The bill, introduced by Senator Clark-Coleman, was referred to the Families and Human Services Committee on February 6, 2007.

The Office of Children's Ombudsman (OCO), in its 2005 annual report (the most recent report available), also recommended consulting with relatives when placement options for foster children are determined. Although Michigan law requires the DHS to identify, locate, and consult with relatives to determine whether placement with a relative would be a suitable alternative to foster care, the OCO found that in practice the DHS did not always consider placement with a noncustodial parent or other relatives, particularly relatives of a putative father.

In response, the DHS pointed to the significant increase in placements with family members, and indicated a commitment to placing children within their family network when such a placement can be done safely. In fact, the DHS has a policy that requires foster care workers to identify and locate all relatives for possible placement of a child.



Private Agencies

Some have recommended that more of the responsibility for providing foster care services be shifted from the DHS to accredited nonprofit foster care agencies. According to the DHS Children's Services Administration, there are 87 nonprofit foster care agencies in Michigan, which currently provide about 39.0% of foster care services. It has been suggested that allowing those agencies to handle a greater proportion of the foster care caseload could result in cost savings for the State. While it is still uncertain whether those potential savings could be realized, supporters of the plan have pointed to other benefits that private placement agencies offer. They have said that as caseloads for DHS foster care workers are rising, private agency caseworkers can provide more personal contact with the foster child and the foster care provider, and are better able to identify the needs and issues of concern to the family. According to an article in the *Jackson City Patriot*, some foster parents have expressed a decided preference to working with the private agencies, and are much happier with the level of service provided.² Arguably, if that success could be expanded to cover all foster care providers in the State, then the system could benefit substantially, with a higher proportion of satisfactory placements, resulting in greater stability for the foster child.

The FY 2007-08 DHS budget proposal, Senate Bill 222, as passed by the Senate, includes a provision that, beginning October 1, 2007, would require foster care services for children who did not have a placement available with a licensed foster care provider to be provided under contract with licensed, nonprofit, nationally accredited child placing agencies and other service providers currently under contract.

Concerns about that proposal have been raised. Critics have said that allowing private agencies to handle a greater proportion of foster care services would reduce governmental oversight, at a time when many believe that greater oversight is needed. In its 2005 audit of the foster care program, the Office of the Auditor General found that the DHS was not effective in monitoring the services provided by private agencies under contract. For instance, although DHS policy requires a quality assurance review (QAR) of each contractor every 18 to 24 months, the audit found that the Purchased Services Division of the DHS either had not performed or could not produce documents to show that it had performed a QAR on over half of the contracted agencies reviewed for the audit. Of the others, the DHS had failed to conduct the QAR within 24 months, as required, for 35.0% of the contracted agencies.

In a March 2007 audit of the DHS's training and staff development procedures, the Auditor General found similar problems. Although the DHS policies required contracted agencies to ensure that their staff members receive certain training within six months of being hired, as well as periodic follow-up training, the audit found that 30.0% of the contracted agency staff providing foster care services had not been trained as required within the designated time frame. In response, the DHS cited frequent turnover at the private agencies.

² "Bill would Privatize Foster Care", 7-15-07.



Reports such as these have led some to question whether there is sufficient accountability for private agencies, and whether it would be prudent to place a greater proportion of the foster care workload with them.

Options for Older Children

According to the Foster Care Manual, adoption is the preferred goal for permanency in cases in which parental rights have been terminated. As children grow older, however, their chances of being adopted are significantly reduced. In 2005, only 14.0% of the children who were adopted out of foster care were 13 or older, according to a 2006 report by a DHS task force.³ About 450 children reached the age of 18 while still in foster care. The transition to adulthood can be very difficult for these youths, who have not had the stability of a permanent home through childhood and who lose their eligibility for foster care services once they turn 18. As a reflection of the challenges that these individuals face, children who age out of the foster care system are less likely to graduate from high school, are more likely to be arrested, have a higher incidence of drug and alcohol abuse, and are more likely to be unemployed or employed at low wages, according to the DHS task force.

Some have suggested that the State should provide children who age out of the foster care system with additional guidance with basic life skills, such as finding employment, establishing a budget, and continuing their education, and other information that they will need to become productive, self-sufficient adults. Absent any support, these youths may experience a sense of abandonment or simply not know how to proceed. The DHS task force put forth several initiatives to help foster youths in transition, including an internship program to provide them with practical job experience and contact with a mentor, a program to help youths apply for continuing Medicaid coverage once they age out of foster care, programs to expand dental coverage and mental health services for youths aging out, and proposed workshops to make them aware of affordable housing options.

The DHS also has created a Foster Youth in Transition website⁴ to provide information relating to education, employment, finances, housing, transportation, legal services, health, pregnancy and parenting, services for youths with disabilities, and other topics.

Conclusion

While the foster care program in Michigan faces many challenges, a great deal of effort is being made to identify deficiencies in the system and improve outcomes for children in State care. It is generally recognized that the State is not meeting its stated objective of moving children as quickly as possible toward permanency. Although the system works well for some children, others enter the foster care system and remain there until adulthood without ever having a permanent placement. The Family to Family program, permanent guardianship, and other efforts to keep children in familiar environments may help to give those children some stability, but further effort is needed to ensure that they have access to

³ "Interdepartmental Task Force Service to At-Risk Youth Transitioning to Adulthood", September 2006.

⁴ <http://www.michigan.gov/fyit>

State Notes

TOPICS OF LEGISLATIVE INTEREST

July/August 2007



necessary medical care and other services. For those children who remain in foster care until they reach the age of 18, efforts have been made to identify resources that will help them make the transition to adulthood once they leave the foster care system. Other potential reforms include allowing private nonprofit agencies to take over a greater share of the foster care workload, which supporters say could save money and provide better outcomes for children. The proposal has been controversial, and some have suggested that it actually could cost the State money. Others believe that increased reliance on private agencies could reduce oversight of the foster care program, potentially putting children at risk. As these and other reforms are debated, all sides agree that a stable, permanent living arrangement is in the best interest of each child, and that the foster care system must be improved to progress toward that goal.